

Land

The Story So Far

China faces unique land policy reform challenges. Unlike economies where landowners have full property rights, in China rural land is owned by collectives (the rural political unit), and urban land is owned by the state. Rural households can only transfer “contractual use rights” within their collectives, while converting rural land for development use can only happen via state requisition. This incentivizes local governments to expropriate rural land at modest, fixed prices and develop it at a profit, which is a major source of revenue to finance fiscal expenditures. More efficient land allocation is needed to balance urban-rural interests and encourage mobility. Recognizing this, the 2013 Third Plenum reform program pledged to promote agriculture at a commercially viable scale by permitting consolidation of small plots into larger farms, to make rural nonagricultural land marketable like urban land, and to end the hukou (or household registration) system that limits mobility. Replacing land transfers as one of the limited revenue sources available to local governments is another necessary element of land reform.

- In February 2015, Beijing approved a pilot program for 33 counties that allowed rural nonagricultural land to be transferred at market prices, with an intent to treat such land the same as urban land. Among the counties involved, 15 piloted direct sales of rural nonagricultural land in urban land markets, 15 counties were allowed to repurpose rural nonagricultural land designated for residential use for other purposes, and 3 counties experimented with state requisition of land at market prices. These pilot programs were supposed to expire by the end of 2017, but that deadline has been repeatedly extended until the end of 2019.
- In June 2015, Beijing published the results of its first comprehensive audit of land sales nationwide. The audit found considerable evidence of missing revenue and fraud, while also confirming the dependence of local governments on land sales revenue. The audit revealed how easily land-related revenues can be misappropriated within the fiscal system.
- In October 2016, Beijing divided households’ contractual rights to rural agricultural land into “land use rights” and “land management rights.” Land use rights could then be transferred to other households or enterprises as long as the land was used for agricultural purposes, while rural households were allowed to maintain land management rights to receive rental payments from the use of their land. These measures

were meant to encourage more efficient agriculture, incentivize rural households to resettle in cities, and improve rural income from property.

- China revised the Rural Land Contracting Law in December 2018 to codify the division of “land use rights” and “land management rights” and to extend rural residents’ rights to agricultural land for another 30 years. China also revised the Land Management Law in August 2019 to allow rural nonagricultural land to enter the urban land market but only under strict conditions with heavy involvement of the government. This revision is below expectations and will limit the scope of future reform.

Methodology

Given Beijing’s 2013 Third Plenum commitment to make rural nonagricultural land marketable like urban land, our primary indicator for land reform tracks the area of rural nonagricultural land offered in the market for the best purchase price – which we consider “reformed,” the slim red area in the chart. All other rural land remains constrained in terms of marketability. The Ministry of Agriculture and Rural Affairs (MoARA) releases agricultural land turnover data once or twice per year. For rural nonagricultural land, the Ministry of Natural Resources (MoNR) publishes an annual yearbook and holds occasional press conferences on pilot programs. These fragmented data sources are far from adequate. Supplemental indicators look at land requisition financials, newly urbanized land by use, urban land prices, and rural credit. Most of these indicators are updated only annually with a one-year lag. That said, they provide a basic statistical picture of the magnitude of unfinished land reform.

Quarterly Assessment and Outlook

- Our land reform assessment remains negative: rural nonagricultural land is not being transferred for more productive uses, despite revisions to the Land Management Law in August 2019.
- Indicators of land reform were mixed. Local governments were more reliant on land sales for revenue, preventing them from relaxing control of this resource. At the same time, however, rural residents still enjoyed stronger property income growth from partial reform of agricultural land.
- New policies to decentralize and accelerate rural land conversion approvals have been issued. However, these are not fundamental reforms as the scope of land

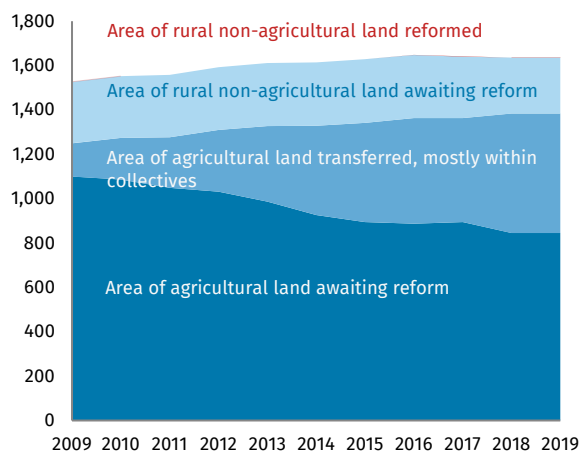
covered is limited and rural residents cannot directly transfer their nonagricultural land.

This Quarter's Numbers

Land reform did not progress this quarter. China's 2013 Third Plenum Decisions defined land reform as enabling the transfer of rural nonagricultural land at market prices—the same treatment as urban land. Beijing did not update land transfer data in 4Q2019: the area of reformed land remains just 0.1% of China's total rural nonagricultural land by area. If new land transfer pilots announced in December 2019 work, we would expect this indicator to improve.

Primary Indicator: Land Marketized

Million mu (1 mu ≈ 1/6 acre)



Source: Ministry of Agriculture and Rural Affairs, Ministry of Natural Resources, Rhodium Group.

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A key obstacle to land reform is local governments' reliance on land sales for fiscal resources, which inclines them to pay below fair market prices for rural land purchases that they then resell at higher prices to developers. Fourth-quarter data show no improvement in this pattern. Extra-budgetary land sales revenue rose 22% year-on-year in 4Q2019, accelerating from 17% in 3Q2019 (see **Land Requisition Financials**). Full-year local land sale revenue was 11% higher than in 2018 compared with

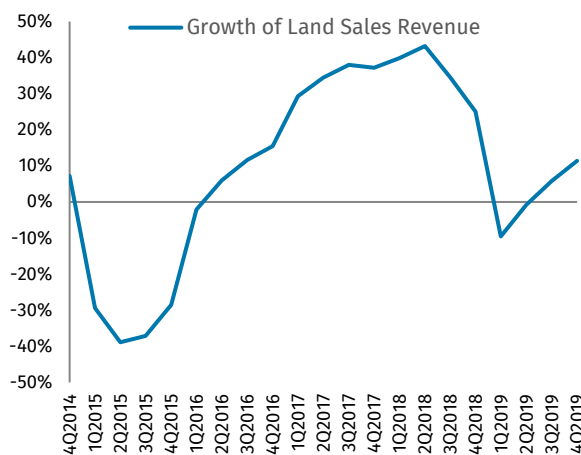
merely 2.2% growth of total budgetary revenue, suggesting that land sales reliance increased. A March 2020 State Council decision delegates more authority to local governments to approve land sales and convert agricultural land for nonagricultural use, giving them an even bigger role in this arbitrage—the opposite of stated reform intentions.

Going forward, profit from land sales will almost surely decline, which will likely reduce resistance to reform. Land price growth has slowed for two years due to restrictive property market policies (see **Urban Land Prices**). The new Land Management Law passed in August 2019 requires local governments to compensate rural residents at fair market prices. As stated, this is not yet happening, but the writing is on the wall.

While reform of rural nonagricultural land is stalled, agricultural land reform has seen some progress, with benefits for rural households. Property income growth for rural households reached 16.4% in 4Q2019, the second largest increase on record (see **Rural Credit**). Credit to rural households for agricultural activities improved as well, which should support rural property values.

Supplemental 1: Land Requisition Financials

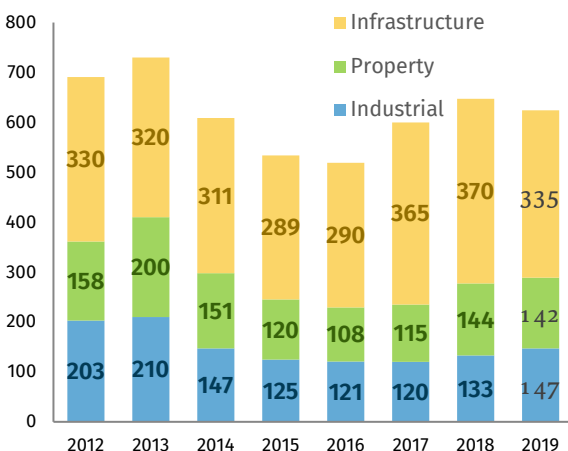
Year-over-year, percent



Source: Ministry of Finance, Rhodium Group.

Supplemental 2: Urban Land Supply by Use

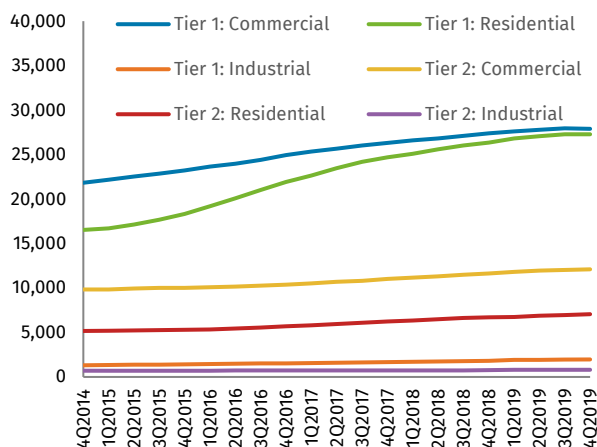
Thousand Ha



Source: Ministry of Natural Resources.

Supplemental 3: Urban Land Prices

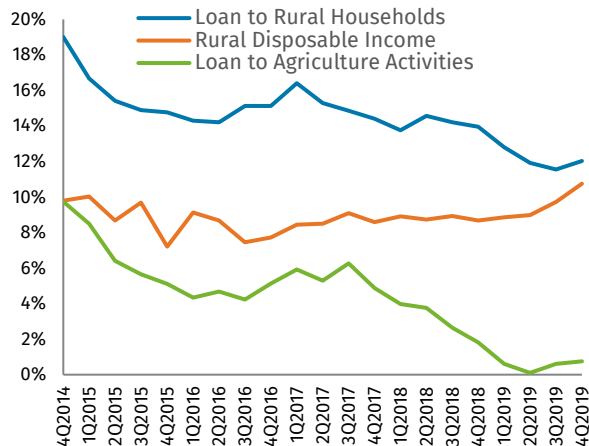
RMB per square meter



Source: Ministry of Natural Resources.

Supplemental 4: Rural Credit

Year-over-year



Source: People's Bank of China, National Bureau of Statistics.

Policy Analysis

Policies targeted both nonagricultural and agricultural land in early 2020. On March 11, the Ministry of Agriculture and Rural Affairs (MoARA) announced that pilot agricultural land reforms would be made national in 2020. On March 12, the State Council empowered local governments to convert agricultural land to nonagricultural use, an authority reserved for Beijing since 2007. An April joint Communist Party–State Council opinion echoed these changes, urging more effective market allocation of resources including market-based pricing of land and better compensation for rural land. These are not fundamental reforms but depending on implementation could permit rural farmers to mortgage their land management rights even if they do not hold ownership.

Decentralizing land conversion authority is a step in the right direction, but local governments are likely to benefit more than rural residents. The State Council will delegate two functions to local governments: converting *nonpermanent* agricultural land (i.e., land that is not critical to China’s food security) to nonagricultural use, and converting permanent agricultural land to nonagricultural urban use in eight pilot provinces (Beijing, Tianjin, Shanghai, Jiangsu, Zhejiang, Anhui, Guangdong, and Chongqing). This reverses the policy in effect since 2007, which had centralized conversion approval to ration nonagricultural land supply. By allowing local governments to control rural nonagricultural land supply, Beijing reinforces their position to benefit from land sales. While rural residents may see modest benefits, the fundamental picture is unchanged.

Meanwhile, the MoARA’s decision to expand agricultural land reform nationwide may also benefit rural households by enabling them to transfer land use to their collectives to be leased out for large-scale farming or other agricultural purposes. Rural residents would earn dividends from the agricultural output of land transferred. Authorities plan to expand the program to the 16 remaining provinces this year.